

**REPORT OF**  
**ASSOCIATION EXAMINATION**  
**OF**

**ALABAMA REASSURANCE COMPANY, INC.**

**AS OF**

**DECEMBER 31, 2001**

**PARTICIPATION:**

**SOUTHEASTERN ZONE**  
**Alabama**

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STATE OF ALABAMA  
COUNTY OF Tuscaloosa

Mary B. Packard, CFE, being first duly sworn, upon her oath deposes and says:

That she is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

That an examination was made of the affairs and financial condition of Alabama Reassurance Company, Inc. for the period of January 1, 1997 through December 31, 2001;

That the following 26 pages constitute the report thereon to the Commissioner of Insurance for the State of Alabama Department of Insurance;

And that the statements, exhibits, and data therein contained are true and correct to the best of her knowledge and belief.

Mary B. Packard  
Examiner-in-charge

Subscribed and sworn to before the undersigned authority this 7<sup>th</sup> day of February, 2003.

Elizabeth A. Warren  
(Signature of Notary Public)

ELIZABETH A. WARREN, Notary Public  
(Print Name)

in and for the State of Alabama.

My Commission expires My Commission Expires 9/12/06.



BOB RILEY  
GOVERNOR

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JIMMY W. GUNN

February 7, 2003  
Tuscaloosa, Alabama

Honorable Diane Koken, Chairman, Examination Oversight Committee  
Commissioner, Pennsylvania Insurance Department  
1326 Strawberry Square  
Harrisburg, PA 17120

Honorable Alfred W. Gross, Commissioner of Insurance  
Bureau of Insurance  
Commonwealth of Virginia  
Post Office Box 1157  
Richmond, VA 23218

Honorable Walter A. Bell, Commissioner of Insurance  
State of Alabama Department of Insurance  
Post Office Box 303351  
Montgomery, Alabama 36130-3351

Dear Commissioners:

Pursuant to your authorizations and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and financial condition of

Alabama Reassurance Company, Inc.  
Tuscaloosa, Alabama

at its home office located at 1300 McFarland Boulevard Northeast, Suite 300, Tuscaloosa, Alabama 35406, as of December 31, 2001. The report of examination is submitted herewith. Where the description "Company" appears herein without qualification, it will be understood to indicate Alabama Reassurance Company, Inc.

## **SCOPE OF EXAMINATION**

The Company was last examined for the period ended December 31, 1996 by examiners from Alabama, representing the Southeastern Zone, NAIC. The current examination covers the intervening period from the date of the last examination through December 31, 2001 and was conducted by examiners from Alabama representing the Southeastern Zone, NAIC. Where deemed appropriate, transactions subsequent to 2001 were reviewed.

The examination was made in accordance with the statutory requirements of the Alabama Insurance Code and the Alabama Insurance Department's regulations and bulletins, in accordance with the applicable guidelines and procedures promulgated by the NAIC, and in accordance with generally accepted examination standards and practices in connection with the verification of assets and determination of liabilities.

The examination included an inspection of corporate records, test checks of recorded income and disbursement items for selected periods, and a general review of records and files pertaining to operations, administrative practices and compliance with statutes and regulations. Assets were verified and valued and all known liabilities were established or estimated as of December 31, 2001 as shown in the Financial Statements contained herein. However, the discussion of assets and liabilities contained in this report is confined to those items where a change was made by the examiners, or which indicated violation of the Alabama Insurance Code and the Insurance Department's rules and regulations or other insurance laws or rules, or which are deemed to require comments or recommendations.

Company office copies of the Annual Statements for the years under review were compared with or reconciled to account balances with respect to ledger items. The market conduct review consisted of a review of the Company's plan of operation and territory.

The Company's accounts were examined by PricewaterhouseCoopers, LLP, certified public accountants (CPA's) for 2001 and by Ernst and Young, LLP, CPA's, for each of the other four years under examination. Audit reports, management letters, audit workpapers and certain audit confirmations were made available to the examiners and were used where deemed appropriate in the completion of this examination.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attests to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2001.

## **ORGANIZATION AND HISTORY**

The Company was incorporated September 11, 1981, under the laws of the State of Alabama, as a wholly owned subsidiary of Greene Group, Inc. The Certificate of Incorporation was filed for record in the office of the Probate Judge of Tuscaloosa County, Alabama.

The purpose of incorporation, as stated in the Certificate of Incorporation, was to engage in the business of a life insurance company, the business of a reinsurance company and to carry on any related business as is generally carried on by life insurance and reinsurance companies.

The Certificate of Incorporation authorizes the issuance of 10,000 shares of \$100 par value common stock. The Company commenced business on September 11, 1981, with paid up capital of \$1,000,000 and paid in and contributed surplus of \$7,000,094.

Two amendments to the Articles of Incorporation have been made changing the par value of the common stock from \$100 per share to \$110 per share on May 18, 1982, and from \$110 to \$120 per share on July 13, 1984. The Company's paid up capital at December 31, 2001 was \$1,200,000.

## **MANAGEMENT AND CONTROL**

### **Stockholders**

At December 31, 2001, the Company was owned 100% by Greene Group, Inc.

### **Board of Directors**

The following were elected to serve on the Board of Directors of the Company by the stockholder as of December 31, 2001:

<b><u>Director/Address</u></b>	<b><u>Principle Occupation</u></b>
Paul William Bryant, Jr. Tuscaloosa, Alabama	President Greene Group, Inc.
Allen Wayne May Tuscaloosa, Alabama	Veterinarian May Veterinary Clinic
Sam Moore Phelps Tuscaloosa, Alabama	Attorney Phelps, Jenkins, Gibson and Fowler
Scott Moore Phelps Tuscaloosa, Alabama	President Alabama Reassurance Company
William Rodney Windham Tuscaloosa, Alabama	Vice President and Actuary Alabama Reassurance Company

### **Committees**

The Company had no committees of the Board of Directors during the examination period.

### **Officers**

The following were elected by the Board of Directors to serve as officers as of December 31, 2001:

**Officers**

Scott Moore Phelps  
William Rodney Windham  
Sam Moore Phelps

**Titles**

President  
Vice President and Actuary  
Secretary-Treasurer

**Conflict of Interest**

The Company adopted a Conflict of Interest Policy on March 30, 1982. Said policy states the following:

"It is the policy of Alabama Reassurance Company, Inc. that any possible conflicts of interest between the company and the directors, officers or key employees, shall be promptly disclosed to the board of directors of Alabama Reassurance Company, Inc. Such conflicts of interest shall include, but not be limited to, any transactions between such officers, directors or key employees and the company, such as purchase and sales of real or personal property, loans or any other commercial transaction wherein the interest of such director, officer or key employee or the spouse or child residing within the household of such director, officer or key employee is adverse to that of the company. A conflict of interest as used herein shall not include salaried or professional fees paid by the company to such directors, officers or key employees in the normal and customary course of business."

The Company has an Affirmation Regarding Corporate Policy Regarding Possible Conflicts of Interest by Officers, Directors and Key Employees which is signed annually by the Company's officers and directors. This affirmation requires all officers, directors and key employees to sign and disclose any conflicts of interest. However, a key and responsible employee of the Company, Elizabeth A. Warren, Investment Manager, did not sign said affirmation for any of the years under examination.

**Corporate Records**

The Company's Articles of Incorporation and By-laws were inspected and found to provide for the operation of the Company in accordance with usual corporate practice and applicable statutes and regulations. There were no amendments to the Articles of Incorporation and By-laws during the examination period.

Minutes of the stockholder and Board of Directors meetings were reviewed for the period of examination. The minutes appear to be complete with regard to recording actions taken on matters before the respective bodies for deliberation and action.

**HOLDING COMPANY AND AFFILIATE MATTERS****Holding Company**

The Company is deemed to be subject to the Alabama Insurance Holding Company Regulatory Act of 1973, as defined in ALA. CODE § 27-29-1 (1975). The Company is responsible for holding company registration and periodic informational filing with the Alabama Department of Insurance,

in accordance with ALA. CODE § 27-29-4 (1975) and Alabama Department of Insurance Regulation Number 55.

### **Agreements with Affiliates**

At December 31, 2001, the Company had the following agreements with its affiliates:

#### **Alabama Reassurance Company, Inc. Joint Office Expense Allocation**

This agreement dated January 1, 1990, was in effect between Greene Group, Inc. and the Company. This agreement provides for Greene Group, Inc. to allocate the following expenses to the Company: Salaries and Payroll Taxes; Insurance; Repair and Maintenance; Rent; Telephone; Computer Usage. Salaries and payroll tax expenses are both charged to the Company on an actual expense basis. The Company will be charged for 15% of the cost of repair and maintenance, \$500 for rent and \$150 for computer usage. The Company is charged \$50 for the phone system and must also pay its long distance fees.

The Company was charged for postal, printing, accounting and credit card fees in 2001 under said agreement, which were not included within it. It is recommended that the Company either revise the agreement and file it with the Department of Insurance in accordance with Alabama Department of Insurance Regulation Number 55 or not be charged for any expense not specifically mentioned in agreement.

#### **Consolidated Tax Allocation Agreement**

The Company entered into a Consolidated Tax Allocation Agreement on December 22, 1981, along with its affiliated members and the parent company. This agreement provides that the companies file a consolidated federal income tax return. Each company pays a percentage of the total tax liability of the Group. The method of allocation is pursuant to Internal Revenue Regulation 1.552-1(a)(2) and the percentage is paid to the parent company, Greene Group, Inc. on a certain due date. Any company which has a loss for the year resulting in reduced taxes for other members shall be reimbursed by each member of the group experiencing such tax savings so incurred. The method of compensating payments is made pursuant to Internal Revenue Regulation 1.1502-33(d) (2) (ii). Termination of this agreement must be made by mutual agreement of the parties and subject to obtaining approval of termination from the Internal Revenue Service.

The Company paid taxes, totaling \$10,000,000, to Greene Group, Inc. under the Consolidated Tax Allocation Agreement. Schedule Y - Part 2 of 2001 Annual Statement did not include these transactions. The NAIC Annual Statement Instructions requires such transactions involving one-half of one percent or more of the largest companies admitted assets as of December 31, 2001 to be included on Schedule Y - Part 2 of the Annual Statement.

#### **Allease, Inc. Automobile Lease**

The Company entered into an Allease, Inc. Automobile Lease on November 1, 1999, with Allease, Inc. The Company whereby leases a 2000 Lincoln LS for a term of 60 months terminating on October 31, 2004. Through this lease the Company agrees to lease said vehicle for \$736.56 per month. The use of the vehicle is restricted to 20,000 miles a year. The Company agrees to pay

\$0.20 per mile for each mile over the 20,000 mile limit. The Company is responsible for maintaining automobile insurance, keeping the vehicle in good operating condition, and bears all risks of loss of and damage to vehicle. Default by the Company will be deemed due to the following: failure to pay, failure to comply with other terms and conditions of lease, or bankruptcy. The Company must return the vehicle after termination of the lease. Allease, Inc. has the right to inspect the vehicle at any time during the lease and also retains the right, title and interest of the vehicle.

### **Transactions with Affiliates**

During 1996, the Company changed the name of Alabama Materials Alliance, Inc., a non-insurance wholly owned subsidiary, to Ready Mix USA, Inc.

In 2000, the Company increased its investment in Ready Mix USA, Inc. by \$53,188,484. The September 19, 2000 investment of \$41,116,250 and the October 8, 2000 investment of \$9,072,234 were in connection with the acquisition of certain assets of APAC generally described as Couch Concrete assets.

### **Dividends to Stockholders**

The Company paid the following dividends to the sole stockholder, Greene Group, Inc.:

<u>Year</u>	<u>Date Declared</u>	<u>Date Paid</u>	<u>Amount Paid</u>
2001	01/02/2001	01/12/2001	\$5,000,000
2000	08/28/2000	09/28/2000	\$5,000,000
1999	03/08/1999	03/26/1999	\$10,000,000
1998		03/31/1998	* \$643,848
1997		12/31/1997	* \$2,915,364

\* Property was transferred as a dividend at this value.

In 1997, the Company transferred its ownership in Coeur d'Alene to Greene Group as a dividend for \$2,915,364. The dividend was disclosed in the Company's 1996 Form B Amendment, yet was not disclosed in annual Form B for 1997. The Department of Insurance requested that the Company amend its Form B for 1997 disclosing such transaction and to file prior notice of transactions in accordance with ALA. CODE § 27-29-5 (1975).

In 1998, the Company transferred its ownership in Tishabee Farms to Greene Group, Inc. as a dividend in the amount of \$643,848. This dividend was effective on March 31, 1998. Notice of the transaction was sent to the Department of Insurance forty-five days after payment.

### **Other Items**

Section 10, Letter F of the Notes to Financial Statements of the 2001 Annual Statement states that the Company had no management and service agreement with affiliates at December 31, 2001. However, the Company had three such management and service agreements in effect at that date.

Schedule Y - Part 1 of the 2001 Annual Statement was not prepared completely. The Company did not include the Federal Employer's Identification Number for each of the companies or the NAIC Company code and two-letter state abbreviation of the state of domicile for all domestic insurers.

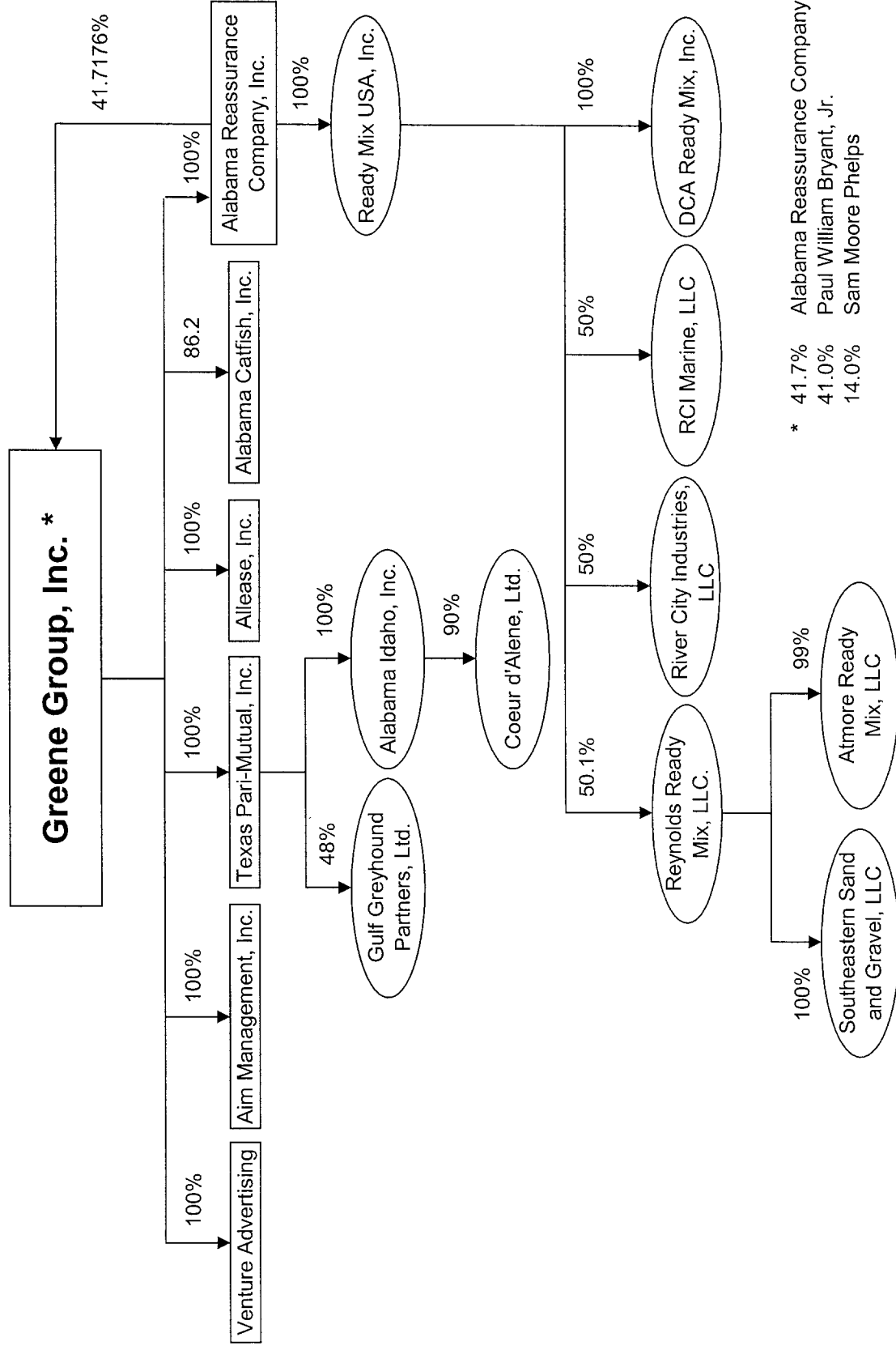
The Annual Statement Instructions requires the Federal Employer's Identification Number or NAIC Company Code and two-letter state abbreviation of the state of domicile to be included.

The Company did not include the "ultimate controlling person" in the organizational chart. The Annual Statement Instructions require that the "ultimate controlling person" be listed on Schedule Y - Part 1.

### **ORGANIZATIONAL CHART**

The following chart presents the identities of and interrelationships among all affiliated persons within the Insurance Holding System at December 31, 2001.

# Organizational Chart



## FIDELITY BOND AND OTHER INSURANCE

At December 31, 2001, the Company was covered by fidelity bond insurance in the aggregate amount of \$1,000,000 insured by Fidelity & Deposit Company of Maryland. The amount of coverage was found to meet the minimum requirements recommended by the NAIC.

Other Insurance coverage maintained by the Company, at December 31, 2001, included the following:

Commercial Property	Commercial Excess Liability
Commercial General Liability	Commercial Automobile

## EMPLOYEE AND AGENT WELFARE

The Company had no employees or agents. All services were provided to the Company by employees of Greene Group, Inc., the Company's parent. Expenses were allocated in accordance with the management and service agreement that is discussed under the caption "Joint Office Expense Allocation Agreement," (page 5) in this report.

## SCHEDULE OF SPECIAL DEPOSITS

The Company maintained a statutory deposit with the State of Alabama Department of Insurance in the aggregate amount of \$300,000 par value, \$277,306 statement value, and \$330,000 fair value. The Company maintained a statutory deposit with the State of Arkansas in the aggregate amount of \$100,000 par value, \$100,000 statement value, and \$100,000 fair value. In addition, the Company had \$151,017,192 par value, \$173,532,887 statement value, and \$174,340,622 fair value held in various trust accounts as required by various reinsurance agreements.

## FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following table sets forth the significant items indicating the growth and financial condition of the Company for the period under review:

	1997	1998	1999	2000	2001*
Admitted Assets	\$338,332,642	\$352,709,927	\$351,497,309	\$335,034,724	\$463,901,240
Liabilities	\$243,090,246	\$245,575,958	\$231,385,573	\$219,836,498	\$341,870,600
Common Capital Stock	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000
Paid In and Contributed Surplus	\$ 68,752,837	\$ 68,752,837	\$ 68,752,837	\$ 68,752,837	\$ 68,752,837
Unassigned Funds (surplus)	\$25,289,560	\$37,181,132	\$50,158,899	\$45,245,389	\$52,077,803

\* Per Examination

## **MARKET CONDUCT ACTIVITIES**

### **Plan of Operation**

Since the Company's beginning in 1981, the business of the Company has been to provide financial reinsurance to ceding companies. The ceding company's business purpose in this reinsurance is to help the ceding company finance the large initial acquisition costs of acquiring the original business. The Company's primary line of business was reinsuring traditional life policies. However, the Company also reinsured credit life, credit accident and health, and preneed policies. The Company had no agents or brokers and there was no direct business. The Company has three sources of business: (1) reinsurance obtained directly from ceding companies; (2) reinsurance obtained through brokers or intermediaries; (3) retrocessions from other reinsurance companies.

### **Territory**

As of December 31, 2001, the Company was licensed to transact insurance business in the following jurisdictions:

Alabama      Arkansas      Kansas      Louisiana      Mississippi

The Company was an approved reinsurer in Kentucky at December 31, 2001.

On Schedule T - Premiums and Annuity Considerations of the 2001 Annual Statement the Company stated that it was licensed in the state of Kentucky. However, this was not the case.

### **Privacy Standards**

The Company does not write direct business to the public. Therefore, the Company is not required to follow the privacy procedures and standards as defined in ALA. ADMIN. CODE 482-1-122 (2002).

### **Other**

The Company paid no dividends to policyholders, did no advertising, had no agents, and had no policyholder complaints due to the Company not writing any direct business.

## **REINSURANCE**

The Company has three sources of business. They are (1) reinsurance obtained directly from ceding companies; (2) reinsurance obtained through brokers or intermediaries; and (3) retrocessions from the other reinsurance companies.

Below is a chart showing the premiums and losses assumed and ceded for the examination period.

	2001	2000	1999	1998	1997
Premiums Assumed	\$56,240,584	\$117,011,877	\$67,764,824	\$116,664,348	\$-6,258,999
Premiums Ceded	<u>12,481,872</u>	<u>16,376,278</u>	<u>138,981</u>	<u>54,374,850</u>	<u>1,411,907</u>
Net Premiums	\$43,758,712	\$100,635,599	\$67,625,843	\$ 62,289,498	\$-7,670,906
Losses Assumed	\$320,196,142	\$202,053,825	\$214,131,447	\$229,861,911	\$234,703,446
Losses Ceded	<u>7,255,154</u>	<u>8,474,897</u>	<u>1,077,025</u>	<u>7,078,343</u>	<u>997,432</u>
Net Losses	\$312,940,988	\$193,578,928	\$213,054,422	\$222,783,568	\$233,706,014

The consulting actuary reviewed contracts for compliance with Alabama Department of Insurance Regulation Number 85. The selection was based on the types of reinsurance used by the Company which were coinsurance, coinsurance with funds withheld, and a combination of coinsurance and modified coinsurance. In addition, the selection was based on the types of business covered by the contracts which included traditional ordinary life, credit life and credit disability, and preneed. The consulting actuary determined that contracts were in compliance with the Regulation, except for one, a retrocession contract with LOTS Re. Article IV. B. of the contract defined the "Net Remittance" by the Company as "Earned Retrocession Premium" as the retrocession premiums for the period less the expense allowance, less claims paid, less the reserve increase for the accounting period plus the investment income for the period. The contract did not give a definition of "Investment Income" other than to define it as "net investment income." Alabama Department of Insurance Regulation Number 85 Section 4.A. (7) (b) permits the ceding company to retain the assets supporting reserves but required that the associated formula for determining the reserve interest rate adjustment include the ceding company's investment earnings and incorporate(s) all realized and unrealized gains and losses reflected in the statutory statement. The section then provided a suggested formula which would accomplish the objective. Because the contract did not define Net Investment Income, the contract cannot be determined to be in compliance with the requirements of Section 4.A. (7) (b).

It was noted that the Company did not maintain Annual Statements of ceding companies for all years under examination in its files.

### **Reinsurance Assumed**

At year-end 2001, there were twenty-five reinsurance contracts in force. The Company primarily has used the standard coinsurance treaty form, the modified coinsurance form, or co-modco form on a "funds withheld" basis.

Each financial reinsurance contract produces an initial statutory loss or surplus strain to the Company. The surplus investment produces a stream of future insurance income which increases the Company's overall return by 4% to 7% over its regular investment return on invested assets.

## **Reinsurance Ceded**

The company has ceded life and accident and health reinsurance business to three unauthorized companies. Two of the treaties were entered into in the 1980's and revised in the early 1990's and the other was entered into in 1998. The amount of reserve credit taken at December 31, 2001 was approximately \$6.5 million. These amounts were secured by funds held and trust accounts.

The Company was a beneficiary to a letter of credit (LOC) for \$7,500,000 issued by Columbus Bank and Trust Company of Columbus, Georgia for LOTS Reassurance Company. The LOC was clean, irrevocable and unconditional and contained an issue date and an expiration date. The LOC states, "We hereby undertake to honor your sight draft(s) drawn on us, indicating our Credit No. 9070 and accompanied by this original Letter of Credit." Per Alabama Department of Insurance Regulation Number 105 § 11A and per the NAIC Accounting Practices and Procedures Manual, Appendix A-785, paragraph 40, the beneficiary need only draw a sight draft under the letter of credit and present it to obtain funds and that no other document need be presented. The examiners brought this matter to the attention of the Company personnel. They received a revised LOC which did not require the presentation of the original LOC with the sight draft in order to obtain funds.

## **ACCOUNTS AND RECORDS**

The Company used the CPA's general ledger system for the years under examination. In 2002, the Company changed its accounting system to QuickBooks Pro. This change occurred subsequent to this examination.

The Company's principal accounting records were maintained by computer and manual records. All services were performed for the Company by personnel of the holding company under a service agreement. Further comment on the service agreement is included under the caption "Joint Office Expense Allocation Agreement" (page 5).

The Company does not have a written security policy which outlines the Company's computer system security procedures. Furthermore, the Company does not have written security procedures regarding its computer system. Controls utilized by the Company are user IDs and passwords. The Company lacks procedures regarding access to the computer system and emergency response procedures. Without such procedures in place the Company could lose financially significant information.

The Company reported \$3,062,704 in Cumulative Effect of Changes in Accounting Principles in the 2001 Annual Statement. This amount contained the following: \$4,368,537 in Net Deferred Tax Asset; (\$912,946) in Net Deferred Tax Liability; and (\$392,887) change in Net Deferred Taxes.

## **External Audit and Actuarial**

The Company was audited from 1997 through 2000 calendar years by Ernst and Young, LLP (E&Y). In 2001, the Company was audited by PricewaterhouseCoopers, LLP (PwC). The audit workpapers of PwC and E&Y were made available to the examiners, and have been utilized in the examination to the extent deemed appropriate.

The Company's reserves for 1997-2001 were certified by William Rodney Windham, ASA, MAAA. Dr. Windham serves as Vice President and Actuary of the Company. The actuarial services and certifications for the years 1997 through 2001 were performed by Dr. Windham.

## FINANCIAL STATEMENTS

The Financial Statements included in this report were prepared on the basis of the Company's records, and the valuations and determinations made during the examination for the year 2001. Amounts shown in the comparative statements for the years 1997 through 2001 were compiled from Company copies of filed Annual Statements. The statements are presented in the following order.

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**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART  
THEREOF.**

**STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2001**

<b>ASSETS</b>	<b>Ledger Assets</b>	<b>Assets Not Admitted</b>	<b>Net Admitted Assets</b>
Bonds (Note 1)	\$50,337,942	\$	\$50,337,942
Common stocks (Note 2)	112,645,416		112,645,416
Real Estate	223,416	223,416	0
Policy loans (Note 3)	4,445,481		4,445,481
Cash (Note 4)	128,792,586		128,792,586
Short-term investments (Note 4)	944,086		944,086
Life insurance premiums and annuity considerations due and uncollected on in force business (Note 5)	574,081		574,081
Federal income tax recoverable (Note 6)	5,973,558	856,655	5,116,903
Investment income due and accrued	1,310,077		1,310,077
Amounts due from insurers on reinsurance assumed	<u>159,734,668</u>		<u>159,734,668</u>
<b>TOTAL ASSETS</b>	<b><u>\$464,981,311</u></b>	<b><u>\$1,080,071</u></b>	<b><u>\$463,901,240</u></b>
<b>LIABILITIES</b>			
Aggregate reserve for life policies and contracts (Note 7)			\$214,198,987
Aggregate reserve for accident and health policies (Note 8)			39,286,657
Liability for deposit type contracts			58,020,647
Policy and contract claims – Life			1,434,697
Interest maintenance reserve			1,101,464
Commissions and expense allowances payable on reinsurance assumed (Note 9)			-1,290,863
General expenses due or accrued (Note 10)			208,007
Taxes, licenses and fees due or accrued (Note 11)			7,563
Federal and foreign income taxes			912,946
Asset valuation reserve (Note 12)			27,633,233
Funds held under coinsurance			355,627
Amounts due to Regions Bank Trust			<u>1,635</u>
<b>TOTAL LIABILITIES</b>			<b><u>\$341,870,600</u></b>
<b>SURPLUS AND OTHER FUNDS</b>			
Common capital stock			\$ 1,200,000
Gross paid in and contributed surplus			68,752,837
Unassigned funds (surplus) (Note 13)			<u>52,077,803</u>
Total Surplus			<b><u>\$ 120,830,640</u></b>
Total Capital and Surplus			<b><u>\$ 122,030,640</u></b>
Total Liabilities, Surplus and Other Funds			<b><u>\$ 463,901,240</u></b>

**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART  
THEREOF.**

**SUMMARY OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 1997, 1998, 1999, 2000 and 2001**

	1997	1998	1999	2000	2001
<b><u>Income</u></b>					
Premiums and annuity considerations	\$-7,670,906	\$62,289,498	\$67,625,843	\$100,635,600	\$43,758,711
Net investment income	15,216,202	14,939,412	15,026,253	14,847,373	11,423,544
Amortization of interest maintenance reserve	506,130	467,328	407,072	295,981	220,640
Commissions and expense allowances on reinsurance ceded	-899,017	22,513,100	437,665	7,325,508	5,471,502
Reserve adjustments on reinsurance assumed	-82,857,898	-6,767,751	-10,855,031	-39,482,037	3,503,614
Other income	<u>5,223,834</u>	<u>61,561,410</u>	<u>-1,655,210</u>	<u>-123,197</u>	<u>84,166,008</u>
<b>Total income</b>	<b>\$ -70,481,655</b>	<b>\$ 155,002,997</b>	<b>\$70,986,592</b>	<b>\$83,499,228</b>	<b>\$148,544,019</b>
<b><u>Deductions</u></b>					
Death benefits	\$-68,683,621	\$11,207,666	\$24,377,778	\$24,098,685	\$30,184,215
Disability benefits and benefits under accident and health policies	11,678,113	-4,687,743	17,361,676	18,866,698	6,369,739
Increase in aggregate reserves for life and accident and health policies and contracts	-196,526,783	-10,659,442	-9,470,805	-18,739,861	61,379,495
Commissions and expense allowances on reinsurance assumed	-8,682,634	58,866,971	31,484,537	45,177,708	23,491,075
General insurance expenses	571,777	624,676	583,178	1,483,625	642,545
Insurance taxes, licenses and fees	27,855	23,269	31,084	23,059	30,386
Aggregate write-ins for deductions	<u>2,026,202</u>	<u>2,172,916</u>	<u>557,110</u>	<u>629,244</u>	<u>457,619</u>
<b>Total Deductions</b>	<b>\$-259,589,091</b>	<b>\$57,548,313</b>	<b>\$64,924,558</b>	<b>\$71,539,158</b>	<b>\$122,555,074</b>
Net gain from operations after dividends to policyholders and before federal income taxes	\$ 81,019,748	\$18,684,238	\$ 6,062,034	\$11,968,070	\$25,988,945
Federal income taxes incurred	23,032,088	5,437,967	769,878	2,636,357	8,211,271
Net realized capital gains or (losses)	<u>37,105</u>	<u>0</u>	<u>0</u>	<u>84,829</u>	<u>347,644</u>
<b>Net Income</b>	<b>\$ 58,024,765</b>	<b>\$13,246,271</b>	<b>\$5,292,156</b>	<b>\$ 9,416,542</b>	<b>\$18,125,318</b>

**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART  
THEREOF.**

**CAPITAL AND SURPLUS ACCOUNT**  
**FOR THE YEARS ENDED DECEMBER 31, 1997, 1998, 1999, 2000, and 2001**

	1997	1998	1999	2000	2001
Capital and surplus December 31, Previous Year	<u>\$39,640,261</u>	<u>\$95,242,397</u>	<u>\$107,133,969</u>	<u>\$120,111,736</u>	<u>\$115,198,226</u>
<b><u>Gains and (Losses) in Surplus</u></b>					
Net income	\$58,024,765	\$13,246,271	\$5,292,156	\$ 9,416,542	\$18,125,318
Change in net unrealized capital gains or (losses)	191,496	10,647,944	15,777,727	815,522	345,555
Change in net deferred taxes					392,887
Change in nonadmitted assets and related items		643,848			-856,655
Change in asset valuation reserve	301,239	-1,700	-8,092,116	-10,145,574	-9,237,395
Cumulative effect of change in accounting principles					3,062,704
Dividends to stockholders	-2,915,364	-10,643,848		-5,000,000	-5,000,000
Aggregate write-ins for gains and losses in surplus		-2,000,943			
Net change in capital and surplus for year	<u>\$55,602,136</u>	<u>\$11,891,572</u>	<u>\$12,977,767</u>	<u>\$-4,913,510</u>	<u>\$6,832,414</u>
Capital and surplus December 31, Current Year	<u>\$95,242,397</u>	<u>\$107,133,969</u>	<u>\$120,111,736</u>	<u>\$115,198,226</u>	<u>\$122,030,640</u>

**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART  
THEREOF.**

## NOTES TO FINANCIAL STATEMENTS

### **Note 1 – Bonds**

**\$ 50,337,942**

The above captioned amount is the same as reported in the 2001 Annual Statement.

It was noted that Alabama Reassurance did not include short-term investments in the calculation of Schedule DM for the years 1997-2001 as stated in the Annual Statement Instructions. The market values in this schedule require an independent source for the value. The Company used the Security Valuation Office market value in Schedule DM rather than another Nationally Recognized Statistical Rating Organization for market rates. It was determined that Schedule DM was not accurately completed.

### **Note 2 – Common stocks**

**\$112,645,416**

The above captioned amount is the same as reported in the 2001 Annual Statement.

Alabama Department of Insurance Regulation Number 98 § 2 states that all securities are to be valued in accordance with the Practices and Procedures Manual of the NAIC Securities Valuation Office. The company reported the market value of Merchants & Farmers common stock as \$117,984, which could not be confirmed during the examination. Therefore, the security should be non-admitted, but because the amount was immaterial, no change was made to the financial statements.

### **Note 3 - Policy loans**

**\$4,445,481**

The above captioned amount is the same as reported in the 2001 Annual Statement.

The Company reported policy loans \$12,909 less than the cedent company, American Capitol Life Insurance Company reported for policy loans. The \$12,909 difference was deemed immaterial; therefore, no change was made to the financial statements.

### **Note 4 – Cash and Short-term Investments**

**\$129,736,672**

The above captioned amount is the same as reported in the 2001 Annual Statement.

It was noted that the CB&T Money Market was valued at \$125,104 on Schedule DA - Part 1, Short-term Investments, but the security was not rated by the Securities Valuation Office. Therefore, market value was not confirmed, and the amount should be non-admitted. However, as the amount was immaterial, no change was made to the financial statements.

It was noted that the Company, as an unauthorized reinsurer, pledged certain certificates of deposits and money market accounts for trust accounts which were controlled by ceding companies. Ten of

the trust accounts had more securities pledged than the recorded reserves for an excess total of \$5,278,145.

SSAP 4 states that an assets has three essential characteristics: a) it embodies a probable future benefit that involves a capacity to contribute directly or indirectly to future net cash inflows; b) the particular entity can obtain the benefit and control others' access to it; and c) the transaction or other event giving rise to the entity's right to or control of the benefit has already occurred. These pledged amounts do not meet the characteristics of b) and c) above and are not specifically identified as an admitted asset within the Accounting Practices and Procedures Manual. In support of SSAP 4, the ALA. CODE § 27-37-4(b)(2) states "The commissioner shall disallow as an asset any deposit, funds or other assets of the insurer found by him after a hearing thereon: ...Not freely subject to withdrawal or liquidation by the insurer at any time for the payment of discharge of claims or other obligations arising under its policies; and ...." Even though the \$5,278,145 was a material amount, the financial statements were not changed. See Note 13 – Unassigned funds.

**Note 5 - Life premiums and annuity considerations**  
**due and uncollected on in force business**

**\$574,081**

The above captioned amount is the same as reported in the 2001 Annual Statements.

It was noted that the Company was provided information on deferred premiums from one of its cedents, Security Life Insurance Company of America. The Company netted the deferred premiums from the reserves rather than establishing an asset for premiums due and uncollected. Since deferred premiums are considered an admitted asset to compensate for the overstatement of the reserves, the netting of the deferred premiums from reserves achieved the same goal. However, the Annual Statement Instructions require that an asset be established for all deferred and uncollected premiums on the basis of gross premiums less loading, and the Company should have done so. Because the change would not affect surplus and because the amount in question was immaterial, the financial statements were not changed.

**Note 6 - Federal income taxes recoverable**

**\$1,605,021**

The above captioned amount is the same as reported on the 2001 Annual Statement.

It was noted that the Company used amounts that were the best estimates at the time for Book Income and Capital Gains when computing the Federal Income Tax Recoverable. By using these amounts, Book Income was understated by \$1,605,022 and Capital Gains were overstated by \$347,644. This caused Pretax Income to be overstated by \$531,351 and Tentative Tax to be overstated by \$185,973. Federal Income Tax Recoverable excluding net deferred tax asset at December 31, 2001 should have been more properly reported as \$1,790,994. The difference of \$185,973 was deemed immaterial; therefore no change was made to the financial statements.

**Note 7 – Aggregate reserves for life policies**

**\$214,198,987**

The above captioned amount is the same as reported in the 2001 Annual Statement.

It was noted by the consulting actuary that the Company understated its reserves by \$63,990. The reason for the understatement was due to the fact that the Company's actuary used the third quarter report from one ceding entity since the year-end report was not available. Because the amount was immaterial, no change was made to the financial statements.

**Note 8 – Aggregate reserves for accident and health**

**\$39,286,657**

The above captioned amount is the same as reported in the 2001 Annual Statement.

It was noted by the consulting actuary that the Company's actuary used the third quarter reports from two ceding entities as the year-end reports were not available. This caused reserves to be understated by \$76,515. As this was an immaterial amount, the financial statements were not changed.

**Note 9 - Commissions and expense allowances  
on assumed reinsurance**

**\$-1,290,863**

The above captioned amount is the same as reported in the 2001 Annual Statement.

The above amount was the sum of what the Company reported as due LOTS Re and Consumers Re, two reinsurers to whom the Company ceded business, and as such, the total should have been reported on the Asset page under Reinsurance ceded: rather than as a negative liability for assumed business.

Per SSAP 4, paragraph 2, an asset has three essential characteristics: 1) to contribute directly or indirectly to future net cash inflows, 2) an entity can obtain the benefit and control others' access to the asset, and 3) the transaction or events which gave rise to the asset have already occurred. The Company used these accounts to net the premiums and investment income from claims, expense allowance and fees. The Company's actuary indicated that these amounts will ultimately result in a payable instead of a receivable; therefore, the examiner determined that this amount should be non-admitted. However, because the amount was immaterial, the financial statements were not changed.

**Note 10 - General expenses due and accrued**

**\$208,007**

The above captioned amount is the same as the amount reported in the 2001 Annual Statement.

The Company reported amounts owed through intercompany agreements under General expenses due and accrued and Taxes, licenses and fees due and accrued which were \$206,662 for General expenses and \$7,563 for Taxes, licenses and fees. The incurred liability should be properly reported under Payable to parent, subsidiaries, and affiliates. The NAIC Annual Statement Instructions state to "report a liability as due to affiliates for expenditures incurred on behalf of the company by a

parent, affiliate, or subsidiaries or for amounts owed through other intercompany transactions" when reporting amounts under Payable to parent, subsidiaries and affiliates. Because the amounts were immaterial, no reclassification was made to the financial statements.

It was noted that, at December 31, 2000, the Company had legal services incurred in the amount of \$26,360.09. These fees were not accrued for at year-end 2000, yet the fees were included in general expenses paid during the year 2001. The NAIC Annual Statement Instructions provides that an accrual for obligations not yet paid should be established.

**Note 11 – Taxes, licenses and fees due and accrued** **\$7,563**

The above captioned amount is the same as reported in the 2001 Annual Statement.

It was noted that the amount reported in this line item was owed through intercompany agreements and should have been reported under Payable to Parent, Subsidiaries, and Affiliates. The NAIC Annual Statement Instructions state to "report a liability as due to affiliates for expenditures incurred on behalf of the company by a parent, affiliate, or subsidiaries or for amounts owed through other intercompany transactions" when reporting amounts under Payable to parent, subsidiaries and affiliates. Because the amount was immaterial, the financial statements were not changed.

**Note 12 Asset Valuation Reserve (AVR)** **\$27,633,233**

The above captioned amount is the same as reported in the 2001 Annual Statement.

It was noted that Company personnel has been using the total unrealized capital gains and losses in their calculation of AVR, rather than the change in unrealized gains and losses as required by the NAIC. PricewaterhouseCoopers, LLP, the Company's external auditors, recalculated AVR as of December 31, 2001 using the change in Unrealized Capital Gains and Losses rather than the total Unrealized Capital Gains and Losses. The change would have resulted in a decrease to AVR of \$7,773,338. Even though the amount was material, the financial statements were not changed. See Note 13 Unassigned funds.

**Note 13 – Unassigned funds (surplus)** **\$120,830,640**

The above captioned amount is the same as reported in the 2001 Annual Statement.

No adjustments were made to the financial statements. The following adjustments were not made to the financial statements due to the aggregate immateriality of the findings.

**Assets**

Cash (Non-admitted)	\$ (5,278,145)
Common stocks (Non-Admitted)	\$ (117,984)
Policy loans (Admitted)	\$ 12,909
Short-term investments (Non-Admitted)	\$ (125,104)
Reinsurance ceded (Non-Admitted)	\$ (1,290,863)
<u>Federal and foreign income tax recoverable (Admitted)</u>	<u>\$ 185,973</u>
<b>Total</b>	<b>\$ (6,613,214)</b>

**Liability (Increase)Decrease**

Aggregate reserve for life policies and contracts	\$ (63,990)
Aggregate reserve for accident & health policies	\$ (76,515)
General expense due and accrued (Reclassification)	\$ 208,007
Tax, license & fees due and accrued (Reclassification)	\$ 7,563
Asset valuation reserve	\$ 7,773,338
<u>Payable to parent, subsidiaries and affiliates (Reclassification)</u>	<u>\$ (215,570)</u>
<b>Total</b>	<b>\$ 7,632,833</b>

**Total Unadjusted Changes** **\$ 1,019,619**

**CONTINGENT LIABILITIES AND PENDING LITIGATION**

Examination for contingencies and pending litigation included a review of: the Company's annual statement disclosures; holding company documents and agreements with affiliates; minutes of the corporate governing bodies; pending claims; and the usual examination of the account for unrecorded items. No material contingencies were identified, and pending claims against the Company, at December 31, 2001, did not appear to present anything out of the ordinary course of business.

**SUBSEQUENT EVENTS**

On January 1, 2002, subsequent to the examination period, the Company entered into a non-qualified retirement plan with William Rodney Windham, Actuary and Vice President of the Company. This plan is intended to be an unfunded plan of deferred compensation as defined under ERISA. The Company purchased this annuity for the plan and expensed it in 2002. The reinsurance contract with American Underwriters Life Insurance Company was terminated as of January 1, 2002.

## COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regards to the Company's compliance with the recommendations made in the previous examination report. This review indicated that the Company had satisfactorily complied with the prior recommendations.

## IMPORTANT POINTS, COMMENTS AND RECOMMENDATIONS

### Conflict of interest – Page 4

**It is recommended** that the Company have key and responsible employees sign the annual conflict of interest statements, as required by the Conflict of Interest Policy adopted by the Company on March 30, 1982.

### Agreements with Affiliates – Page 5

**It is recommended** that the Company only pay expenses allocated to the Company through the Alabama Reassurance Company, Inc. Joint Office Expense Allocation agreement. Or;

**It is recommended** that the Company revise its Alabama Reassurance Company, Inc. Joint Office Expense Allocation agreement to include all fees which are charged to the Company through said agreement and file such agreement with the Alabama Department of Insurance in accordance with Alabama Department of Insurance Regulation Number 55.

### Dividends to stockholders – Page 6

**It is recommended** that the Company comply with ALA. CODE § 27-29-5(g)(2) (1975) which states "a domestic insurer shall report to the commissioner all dividends to shareholders within five business days following the declaration of the dividends and not less than 10 days prior to the payment of the dividends. This report shall also include a schedule setting forth all dividends or other distributions made within the previous 12 months".

### Other items – Page 6

**It is recommended** that the Company comply with the NAIC Annual Statement Instructions which state to include a description of material management and service contracts and cost-sharing arrangements involving the reporting entity and any related party when completing the Section 10, Letter F of the Notes to Financial Statements.

**It is recommended** that the Company comply with the NAIC Annual Statement Instructions which state to include transactions involving one-half of one percent or more of the largest companies admitted assets as of December 31 when completing Schedule Y - Part 2.

**It is recommended** that the Company comply with the NAIC Annual Statement Instructions which states any person deemed to be an ultimate controlling person, must be included in the organizational chart and when completing Schedule Y - Part 1, list the Federal Employer's Identification Number for each and NAIC Company code and two-letter state abbreviation of the state of domicile should be included for all domestic insurers.

#### **Territory – Page 10**

**It is recommended** that the Company answer "yes" under column 1 of Schedule T only if it is licensed in that state.

#### **Reinsurance – Page 10**

**It is recommended** that the Company amend the LOTS Re contract #9803 to add a definition of the calculation of investment income to comply with Alabama Department of Insurance Regulation Number 85 Section 4.A. (7) (b).

**It is recommended** that the Company maintain an Annual Statement from each cedent for every year the contract is in force.

#### **Accounts and records – Page 12**

**It is recommended** that the Company adopt adequate procedures and a security policy relating to the security of its computer system.

#### **Bonds – Page 17**

**It is recommended** that the Company comply with the NAIC Annual Statement Instructions when completing Schedule DM.

#### **Common stocks – Page 17**

**It is recommended** that the Company comply with Alabama Department of Insurance Regulation Number 98 § 2 which requires that all securities be valued in accordance with the Practices and Procedures Manual of the NAIC Securities Valuation Office.

#### **Policy loans – Page 17**

**It is recommended** that the Company record year end amounts when reporting policy loans on assumed reinsurance in its Annual Statements.

### **Cash and short term investments – Page 17**

**It is recommended** that the Company comply with the Purposes and Procedures Manual of the NAIC Securities Valuation Office when valuing securities in the Annual Statement as required by Alabama Department of Insurance Regulation Number 98 § 2.

**It is recommended** that the Company not pledge certificates of deposit and money market accounts in excess of the recorded reserves.

### **Life premiums and annuity considerations due and uncollected on in force business – Page 18**

**It is recommended** that the Company establish an asset for deferred premiums rather than netting them from the reserves. The deferred premiums would be reported as premiums deferred and uncollected.

### **Aggregate reserves for life policies – Page 19**

**It is recommended** that the Company utilize year-end reserve information when calculating aggregate reserves for its Annual Statement.

### **Aggregate reserves for accident and health – Page 19**

**It is recommended** that the Company use year-end information when calculating the reserves for the Annual Statement.

### **Commissions and expense allowances on assumed reinsurance – Page 19**

**It is recommended** that the Company classify amounts due on ceded reinsurance as an asset and classify amounts due on assumed reinsurance as a liability.

**It is recommended** that the Company follow SSAP 4, paragraph 2 and admit amounts which meet the definition and characteristics of an asset.

### **General expenses due and accrued – Page 19**

**It is recommended** that the Company comply with the NAIC Annual Statement Instructions which state, "report a liability as due to affiliates for expenditures incurred on behalf of the company by a parent, affiliate, or subsidiaries or for amounts owed through other intercompany transactions" when reporting amounts for Payable to parent, subsidiaries and affiliates.

**It is recommended** that the Company establish accruals for obligations not yet paid in its financial statements in accordance with NAIC Annual Statement Instructions.

**Taxes, licenses and fee due and accrued – Page 20**

**It is recommended** that the Company comply with the NAIC Annual Statement Instructions which state, "report a liability as due to affiliates for expenditures incurred on behalf of the company by a parent, affiliate, or subsidiaries or for amounts owed through other intercompany transactions" when reporting amounts for Payable to parent, subsidiaries and affiliates.

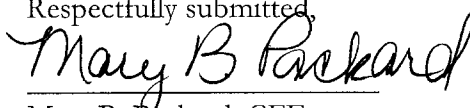
## CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by the officers of the Company and employees of Greene Group, Inc. during the course of this examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and valuation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, Jayne Simms, Jeffrey A. Hawkins, Lori Wright, Examiners for the Alabama Department of Insurance, and Donald G. Yates, FSA, MAAA, Consulting Actuary, representing the Alabama Department of Insurance, participated in this examination of Alabama Reassurance Company, Inc.

Respectfully submitted,

A handwritten signature in black ink, reading "Mary B. Packard". The signature is written in a cursive style with a horizontal line underneath the name.

Mary B. Packard, CFE  
Examiner-in-charge  
State of Alabama  
Department of Insurance  
Southeastern Zone, NAIC



DON SIEGELMAN  
GOVERNOR

STATE OF ALABAMA  
DEPARTMENT OF INSURANCE  
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D. DAVID PARSONS  
COMMISSIONER  
ASSISTANT COMMISSIONER  
TREY GRANGER  
DEPUTY COMMISSIONER  
JAMES R. (JOHNNY) JOHNSON  
CHIEF EXAMINER  
RICHARD L. FORD  
STATE FIRE MARSHAL  
JOHN S. ROBISON  
GENERAL COUNSEL  
MICHAEL A. BOWNES  
RECEIVER  
DENISE B. AZAR  
LICENSING MANAGER  
JIMMY W. GUNN

August 2, 2002

Mr. Scott M. Phelps  
President  
Alabama Reassurance Company, Inc.  
1300 McFarland Boulevard NE, Suite 300  
Tuscaloosa, AL 35406

Re: Financial Examination As Of December 31, 2001

Dear Mr. Phelps:

This letter is to inform you of a financial examination of your company called by the Alabama Department of Insurance and to authorize Mary Packard, CFE, Examiner, to conduct the examination. This authorization is pursuant to the instructions of Alabama Insurance Commissioner, D. David Parsons, and in compliance with the statutory requirements of the State of Alabama and resolutions adopted by the National Association of Insurance Commissioners.

Your examination is to commence on or about September 16, 2002, and will be conducted primarily in your offices. The expected duration of the examination is approximately three months. Preliminary planning of your examination will first begin in the offices of the Alabama Department of Insurance. The examiner will arrive in your offices on or after this date. You will be contacted by Ms. Packard regarding the exact arrival date at your offices.

The Alabama Insurance Department has adopted work policies and rules governing work hours, leave and unacceptable conduct including sexual harassment. If you have any question about our examiner's conduct at your offices, please contact me immediately.

As part of your examination, the enclosed internal control and information systems questionnaire is required to be completed for review by our examiner. Please complete and return the questionnaire to this Department within 30 days, addressed to the attention of the Examiners' Division. The questions may be answered on the questionnaire itself or on a separate sheet if additional explanation is required. If possible, your CPA's workpapers and a representative of your CPA firm should be available the week of September 16, 2002, for review at your offices.

Invoices covering examination fees and related expenses will be submitted to the appropriate company official in accordance with standard Departmental policy. Payment of any examination charges so invoiced are due within two business days following presentation of the invoice.

Sincerely,

Richard L. Ford, CFE  
Acting Deputy Commissioner and  
Chief Examiner

RLF:dk  
Enclosures  
cc: Jack M. Brown, CFE  
Mary Packard, CFE  
Spencer Lee

EQUAL OPPORTUNITY EMPLOYER

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- Attach this card to the back of the mailpiece, or on the front if space permits.

## 1. Article Addressed to:

Mr. Scott M. Phelps  
President  
Alabama Reassurance Company Inc.  
1300 McFarland Blvd. NE  
Suite 300  
Tuscaloosa, AL 35406

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly) B. Date of Delivery

Tiffany Higdon

8-1-92

C. Signature

X Tiffany Higdon

☒ Agent  
☐ AddresseeD. Is delivery address different from item 1? ☐ YesIf YES, enter delivery address below: ☐ No

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## 2. Article Number. (Copy from service label)

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PS Form 3811, July 1999

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DON SIEGELMAN  
GOVERNOR

STATE OF ALABAMA  
DEPARTMENT OF INSURANCE  
201 MONROE STREET, SUITE 1700  
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JIMMY W. GUNN

August 2, 2002

Donald G. Yates, FSA MAAA  
Actuarial Resources Corporation  
5424 Afton Drive  
Birmingham, AL 35242

Re: Examination of Alabama Reassurance Company, Inc.  
As of December 31, 2001

Dear Mr. Yates:

This letter is to request and authorize your participation in the examination of the above referenced company for the purpose of computing reserves and making other valuations in your usual manner.

The examination will begin on or about September 16, 2002. The examination for this company is being conducted in the company's offices at 1300 McFarland Boulevard NE, Suite 300, and will cover the period ending December 31, 2001. The expected duration of the examination is approximately three months.

The Examiner-in-Charge will be Ms. Mary Packard. Please contact her at the company after the beginning date to coordinate the scheduling of your portion of this examination. The company telephone number is (205) 345-5600.

If your schedule does not permit you to accept this assignment, please let me know so that other arrangements can be made.

Thank you for your assistance in this matter.

Sincerely,

Richard L. Ford, CFE  
Acting Deputy Commissioner and  
Chief Examiner

RLF:dk

cc: Jack M. Brown, CFE  
Mary Packard, CFE  
Spencer Lee

**SENDER: COMPLETE THIS SECTION**

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## 1. Article Addressed to:

Donald G. Yates, FSA MAAA  
Actuarial Resources Corporation  
5424 Afton Drive  
Birmingham, AL 35242

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly)

B. Date of Delivery

7 Aug 92

C. Signature

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☐ Agent☐ Addressee

D. Is delivery address different from item 1?

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## 3. Service Type

☒ Certified Mail☐ Express Mail☐ Registered☒ Return Receipt for Merchandise☐ Insured Mail☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

## 2. Article Number (Copy from service label)

7099 3400 0015 2327 6552

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

ALABAMA REASSURANCE COMPANY  
1300 MCFARLAND BOULEVARD NE, SUITE 300  
TUSCALOOSA, ALABAMA 35406  
TELEPHONE (205) 345-5600  
FAX (205) 345-3937

January 24, 2003

Mary B. Packard, CFE  
Examiner-In-Charge  
Alabama Department of Insurance  
Post Office Box 303350  
Montgomery, Alabama 36130-3350

We are providing this letter in connection with your examination of the statutory financial statements of Alabama Reassurance Company, Inc. as of December 31, 2001, and for the period from January 1, 1997 to December 31, 2001. We are responsible for the preparation of the statutory financial statements of financial position, results of operations, and changes in statutory financial position in conformity with the accounting practices prescribed or permitted by the Alabama Department of Insurance.

Certain representations in this letter are described as being limited to those matters that are material. Solely for the purpose of preparing this letter, the term "material," when used in this letter, means any item or group of similar items involving potential amounts of more than \$2,000,000. These amounts are not intended to represent the materiality threshold for financial reporting and disclosure purposes.

Notwithstanding this, an item is considered material, regardless of size, if it involves an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during the examination.

We have made available to you all:

- Statutory financial records and related data; and
- Minutes of meetings of stockholders, directors and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

There have been no:

- Fraud or other irregularities involving management or employees who have significant roles in the internal control structure;
- Fraud or other irregularities involving other employees that have or may have a material effect on the statutory financial statements;
- Fraud or other irregularities involving agents, MGAs, third party administrators, independent contractors, holding companies or other individuals or parties that have or may have a material effect on the statutory financial position of the Company; or
- Communications from regulatory agencies concerning noncompliance with, or deficiencies in, statutory financial reporting practices.

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

The financial statements are free of material and intentional immaterial misstatements.

The following have been properly recorded or disclosed in the statutory financial statements:

- Any related party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees.
- All liabilities, both actual and contingent.
- Guarantees whether written or oral, under which the Company is contingently liable.
- Capital stock repurchase options or agreements on capital stock reserved for options, warrants, conversions, or other requirements.
- Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
- Significant estimates and material concentrations known to management that are required to be disclosed in accordance with SSAP No. 1, *Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures*.
- Amount of credit risk and extent, nature, and terms of financial instruments with off-balance-sheet risk to be disclosed in accordance with SSAP No. 27.
- Agreements to repurchase assets previously sold.

We confirm the completeness of the information provided regarding the identification or related parties.

There are no violations or possible violations of laws or regulations whose effects should be considered for disclosure in the statutory financial statements or as a basis for recording a loss contingency.

Contingent Liabilities:

- There are no other liabilities or gain or loss contingencies that are required to be accrued or disclosed by SSAP No. 5.
- There is no litigation against the Company that is considered material in relation to the statutory financial position of the Company. For purposes of this section, the Company has excluded litigation for which the only amounts sought relate to benefits within the normal terms of coverage under contracts of insurance issued by the Company, and which are otherwise considered in the actuarial determination of the Company's unpaid claim reserves.

Adequate provision has been made for adjustments and losses in collection of receivables.

The Company is in compliance with bond indentures or other debt instruments.

Pending changes in the organizational structure, financing arrangements, or other matters that could have a material effect on the financial statements of the Company are properly disclosed.

The Company has properly classified all assets as admitted or nonadmitted in accordance with SSAP No.4.

The Company has free and clear title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged except as disclosed in the annual statement.

We have received long-lived assets and certain identifiable intangibles whenever changes in circumstances have indicated that the carrying amount of these assets might not be recoverable and have recorded the adjustment in accordance with SSAP No.5.

Deferred tax assets and liabilities as reported in the financial statements comply and have been valued in accordance with SSAP No. 10, *Income Taxes*.

Investments are appropriately recorded and valued as follows:

- Bonds - are recorded and disclosed in accordance with SSAP No. 26 and interpretations thereof.
- Common stocks – are recorded and disclosed in accordance with SSAP No. 30 and interpretations thereof. Common stock of subsidiaries and affiliated or controlled companies are recorded and disclosed in accordance with SSAP No. 46 and interpretations thereof.
- Short-term investments – are recorded and disclosed in accordance with SSAP No. 2 and interpretations thereof.
- Real estate – are recorded and disclosed in accordance with SSAP No. 40 and interpretations thereof.
- Policy loans – are recorded and disclosed in accordance with SSAP No. 49 and interpretations thereof.

The Company has properly disclosed and recorded policy reserves in accordance with SSAPs No. 51, 52, 54 and 59. The Company's liabilities for unpaid claims and claim adjustment expenses are based upon and recorded at management's best estimate in accordance with SSAP No. 55.

The Company's actuary has certified as to the propriety of the basis and amounts at which the deferred and uncollected premiums, the reserve for life policies and contracts (including deposit-like contracts; SSAP No. 52), and the reserve for accident and health policies are stated.

The Company has computed the asset valuation reserve and interest maintenance reserve in accordance with methods prescribed by the Annual Statement Instructions of the National Association of Insurance Commissioners.

There were no material commitments for construction or acquisition of property, plant and equipment, or to acquire other noncurrent assets, such as investments or intangibles.

We have complied with all aspects of contractual agreements that would have a material effect on the statutory financial statement in the event of noncompliance.

There are no material transactions that have not been properly recorded in the accounting records underlying the statutory financial statements.

All required returns and statutory reporting requirements have been filed on a timely basis with the appropriate regulatory bodies.

All material reinsurance transactions have been recorded and disclosed in accordance with SSAP No. 61.


The Company has properly disclosed and recorded all changes in accounting principles in accordance with SSAP No. 3.

The Company has recorded and disclosed subsequent events in accordance with SSAP No. 9.

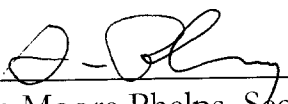
The Company is not aware of the employment of or a business relationship with a "prohibited person" as defined in The Violent Crime Control and Law Enforcement Act of 1994: United States Code, Section 1033 (e)(1)(A).

We understand that your examination was made in accordance with standards established by the Alabama Department of Insurance, and procedures established by *the National Association of Insurance Commissioners*, and accordingly included such tests of the accounting records and such other procedures as considered necessary under the circumstances.

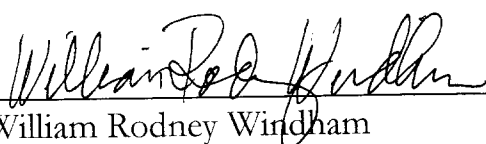
Alabama Reassurance Company, Inc.

  
\_\_\_\_\_  
Scott Moore Phelps, President

1.16.03  
Date

  
\_\_\_\_\_  
Sam Moore Phelps, Secretary &  
Treasurer

1-16-03  
Date

  
\_\_\_\_\_  
William Rodney Windham  
Vice President & Actuary

1-16-03  
Date



BOB RILEY  
GOVERNOR

STATE OF ALABAMA  
DEPARTMENT OF INSURANCE  
201 MONROE STREET, SUITE 1700  
POST OFFICE BOX 303351  
MONTGOMERY, ALABAMA 36130-3351  
TELEPHONE: (334) 269-3550  
FACSIMILE: (334) 241-4192  
INTERNET: [www.aldoi.org](http://www.aldoi.org)

WALTER A. BELL  
COMMISSIONER  
DEPUTY COMMISSIONER  
D. DAVID PARSONS  
JAMES R. (JOHNNY) JOHNSON  
CHIEF EXAMINER  
RICHARD L. FORD  
STATE FIRE MARSHAL  
JOHN S. ROBISON  
GENERAL COUNSEL  
MICHAEL A. BOWNES  
RECEIVER  
DENISE B. AZAR  
PRODUCER LICENSING MANAGER  
JIMMY W. GUNN

February 10, 2003

**CERTIFIED MAIL**  
**RETURN RECEIPT REQUESTED**

Mr. Scott M. Phelps  
President  
Alabama Reassurance Company, Inc.  
1300 McFarland Boulevard NE, Suite 300  
Tuscaloosa, AL 35406

**RE: Alabama Reassurance Company, Inc.**  
**Report of Examination as of December 31, 2001**

Dear Mr. Phelps:

Enclosed is a copy of the Report of Examination of the above-cited company as of December 31, 2001. In the event that you have any objections to this report, please advise this Department in writing within twenty (20) days, and a hearing will be scheduled, at which time you may present your arguments regarding any objections.

Unless we hear from you within the above-stated time, the report will be filed as a public document. Once filed, no annual or quarterly statements, or other material reflecting the statutory financial condition of the company may be filed with or accepted by this Department if those statements conflict with any basis of calculation to establish the value of any asset, liability, or capital account in the report.

Sincerely,

Richard L. Ford, CFE, CIE  
Acting Deputy Commissioner and  
Chief Examiner

RLF:dk

Enclosure

cc: Jack M. Brown, CFE, CIE  
Mary Packard, CFE  
Spencer Lee

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Mr. Scott M. Phelps  
President  
Alabama Reassurance Company Inc  
1300 McFarland Blvd NE Suite 300  
Tuscaloosa, AL 35406

**COMPLETE THIS SECTION ON DELIVERY**A. Received by (Please Print Clearly) *SP* B. Date of Delivery *2-19-3*

C. Signature

*X [Signature]*☐ Agent  
☐ AddresseeD. Is delivery address different from item 1? ☐ Yes  
If YES, enter delivery address below: ☐ No

3. Service Type

☒ Certified Mail ☐ Express Mail  
☐ Registered ☒ Return Receipt for Merchandise  
☐ Insured Mail ☐ C.O.D.4. Restricted Delivery? (Extra Fee) ☐ Yes

2. Article Number (Conv from service label)

7002 2030 0000 9484 2465

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

CC: Legal - Elizabeth,  
Ray Newman  
Spencer, Jr.

ALABAMA REASSURANCE COMPANY

P.O. Box 020152

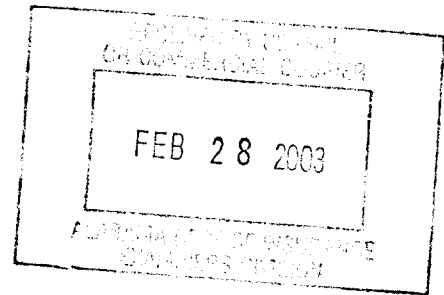
TUSCALOOSA, ALABAMA 35402

PHONE (205) 345-5600 FAX (205) 345-3937

W. RODNEY WINDHAM  
VICE PRESIDENT AND ACTUARY

**CERTIFIED MAIL**  
**RETURN RECEIPT REQUESTED**

February 27, 2003



Mr. Richard L. Ford, CFE, CIE  
Acting Deputy Commissioner and Chief Examiner  
Department of Insurance  
201 Monroe Street  
Suite 1700  
Montgomery, AL 36130-3351

RE: Alabama Reassurance Company, Inc.  
Report of Examination as of December 31, 2001

Dear Mr. Ford:

We received your letter dated February 10, 2003 on February 19, 2003. In several respects we disagree with the implications of the wording of the recommendations set forth but not the recommendation. In four instances we object to the substance of the recommendation. These are discussed in items number 2, 6, 9 and 10 below. We request you set a hearing, if necessary, with respect to these items and we respectfully request the Department reconsider the wording of the several other recommendations discussed herein. The recommendations are addressed in the same order as presented on pages 22-25 of the report.

1) Page 6, PP 22 Dividends to Stockholders.

We object to the recommendation that the Company comply with ALA. CODE §27-29 – 5(g)(2)(1975) to the extent that such recommendation implies the company is not in substantial compliance with the relevant

code section at the present time. The sole “noncompliance” referenced by the Report is a late notice in 1998.

2) Page 11, PP 23 Reinsurance.

We object to the recommendation that the Company amend the LOTS Re contract #9803 in order to comply with Alabama Department of Insurance Regulation Number 85 Section 4.A(7)(b) in that the LOTS Re contract complies with Regulation 85 as it is. The report states that said Regulation 85 permits the ceding company to retain the assets supporting reserves but that the associated formula for determining the reserve interest rate adjustment include the ceding company’s investment earnings, incorporating all realized and unrealized gains and losses. The LOTS Re contract is a retrocession from the Company(ceding company) to LOTS Re (assuming reinsurer). The Company is not retaining assets supporting reserves. The contract is on a coinsurance funds transferred basis, and is therefore in compliance with Regulation 85.

3) Page 17, PP 23 Bonds.

We object to the recommendation that the Company comply with the NAIC Annual Statement Instructions when completing Schedule DM to the extent such recommendation implies the Company does not comply with such instructions and to the further statement that Schedule DM was not accurately completed for the year ending December 31, 2001. There were no short-term bonds excluded from Schedule DM. The company had already discussed the additional valuation source required on line “a” of Schedule DM with Spencer Lee of the Department of Insurance. This item was discussed in Mr. Lee’s letter dated June 28, 2002 to the Company and correspondingly, in the response to Mr. Lee’s letter from the Company dated August 7, 2002, copies of which are attached.

4) Page 17, PP 23 Common Stocks.

We object to the recommendation that the Company comply with Alabama Department of Insurance Regulation Number 98 §2 which requires that all securities be valued in accordance with the Practices and Procedures Manual of the NAIC Securities Valuation Office to the extent that such recommendation implies the company is not in compliance with such regulation. The SSAP No. 30, paragraph 7 states, “Investments in common stocks shall be valued and reported in accordance with the Practices and Procedures Manual of the NAIC Securities Valuation Office. In those instances where unit price is not available from the SVO, it is the responsibility of the management to determine fair value based on analytic or pricing mechanisms.” This recommendation addresses only the Merchants and Farmers stock. The proper SVO filings were made by the Company and in years in which the SVO did not respond (despite our follow up request) the Company used the method that the SVO had approved in other years.

5) Page 17, PP 23 Policy loans. We object to the recommendation that the Company record year-end amounts when reporting policy loans to the extent that such recommendation implies it is the Company's practice to record other than year-end amounts. To the contrary, the Company has always recorded year-end amounts; we respectively suggest the \$12,090 difference in what the ceding company reported as referenced in the examination report does not indicate any mistaken practice by the Company.

6) Pages 17-18, PP 24 Cash and short-term investments.

We object to the recommendation that the Company comply with the Purposes and Procedures Manual of the NAIC Securities Valuation Office when valuing securities in the Annual Statement as required by Alabama Department of Insurance Regulation Number 98 §2 to the extent that such recommendation implies the Company is not in substantial compliance with such regulation. The CB&T Money Market discussed is an overnight Synovus cash deposit not rated by the Securities Valuation Office.

6a) We object to the recommendation that the Company not pledge certificates of deposit and money market accounts in excess of the recorded reserves and request a hearing with respect to this recommendation. In most cases, the ceding company cannot report the exact balance required in the trust to support the reserves ceded as of the end of the year. Therefore, most ceding companies require some excess so that there will be no issue with regard to reserve credit taken by the ceding company.

The Report argued that the "excess" should be non-admitted because it is not available for the use of the policyholders. This argument would non-admit a privately held bond that doesn't mature for five years. The report cites SSAP 4 for authority, but SSAP 4 is a "concept" statement that does not trump any other statement. SSAP 61 is the governing statement for reinsurance transactions. Paragraph 24 states:

*While the premiums, commissions, expense allowances, reserves, claims, etc. will result in a net amount, the proper way to report them is in their separate classifications on the balances sheet. Each reinsurance agreement must be accounted for separately. Certain assets and liabilities are created by entities when they engage in reinsurance contracts. Reinsurance assets meet the definition of assets as defined by SSAP No. 4 – Assets and Nonadmitted Assets and are admitted to the extent they conform to the requirements of this statement.*

In fact, the argument presented in the Report for non-admittance would apply equally to all securities pledged, not just the "excess," making apparent its non-application in this case.

- 7) Page 18, PP 24 Life premiums and annuity considerations due and uncollected on in force business.

We object to this recommendation to the extent that recommending the Company establish an asset for deferred premiums rather than netting them from the reserves implies that the Company has not already established a deferred premium asset which is not the case. In one particular case, we mirrored the ceding company's practice of showing net reserves in order to be in agreement with their ceded reserves.

- 8) Page 19, PP 24 Aggregate reserves for life policies and Page 19, pp 24 Aggregate reserves for accident and health.

We object to the recommendation that the Company utilize year-end reserve information when calculating aggregate reserves for its Annual Statement to the extent such recommendation implies the Company utilizes other than year-end information. In the case of the one contract referenced in the examination, the third quarter reserve was used as a best estimate of the year-end reserve because the year-end report was not available at Annual Statement printing time, and it was determined that the difference would be small and immaterial, as the examiners agreed.

- 9) Page 19, PP 24 Commission and expense allowances on assumed reinsurance.

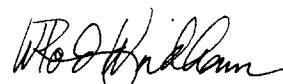
As discussed above, SSAP 4 is not a basis for non-admitting assets as the Report discusses. We respectfully suggest that rather than classifying an amount as a negative liability on page 3 of the Annual Statement, we will show the amount as a positive asset on page 2.

- 10) Page 19, PP 24 General expenses due and accrued and Page 20, pp25 Taxes, licenses and fees due and accrued.

If the recommendation is followed, and general expenses due or accrued are not shown on page 3, line 12 or taxes, licenses or fees due or accrued are not shown on page 3, line 14, the NAIC cross checks and our software will indicate an Annual Statement error. To avoid the errors, we suggest that the liabilities be shown on lines 12 and 14, and that an addition to the Notes to Financial Statements show the amount of such liabilities that are due to affiliates.

Please let me know if you need any further information.

Sincerely,



W. Rodney Windham

ALABAMA REASSURANCE COMPANY

1300 MCFARLAND BOULEVARD NE, SUITE 300

TUSCALOOSA, ALABAMA 35406

TELEPHONE ☐ (205) 345-5600

FAX ☐ (205) 345-3937

*Elizabeth A. Warren*  
*Investment Manager*

August 7, 2002

Spencer Lee  
Examiner  
State of Alabama Department of Insurance  
P. O. Box 303351  
Montgomery, Alabama 36130-3351

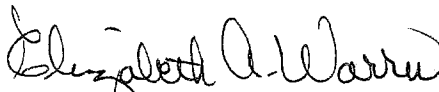
*RE: The information requested regarding SVO valuations & Schedule DM*

Dear Mr. Lee:

Enclosed please find SVO valuations as of 12-31-2001 for Cusip # 013817AD3(Alcoa), #149123BJ9(Caterpillar), and #25466PDR6(Discover Cr Corp). Also, I spoke with Conning and Company regarding the valuation service they use to comply with the requirements of Schedule DM. They use IDC(Interactive Data Corporation) and the valuations reported on this schedule at 12-31-2001 include these values. The only change to Schedule DM would be to add IDC in the footnote. If possible we would like to make this change for future filings in lieu of amending this schedule for 12-31-2001.

Please let me know if I can provide additional information. Thank you for your time in handling this matter.

Sincerely,



Elizabeth A. Warren

## SCHEDULE IV

For bonds and preferred stocks owned as of December 31, state the aggregate statement admitted value, the aggregate fair value, and the aggregate difference, if any, between them.

	Statement (Admitted) Value	Fair Value (a)	Excess of Statement over Fair Value, or Fair Value Over Statement (+)
1. Bonds	50,337,942	51,198,371	860,429
2. Preferred Stocks			
3. Totals	50,337,942	51,198,371	860,429

(a) Amortized or book values shall not be substituted for fair values. Describe the sources or methods utilized in determining the fair values.

N.A.I.C. SECURITIES VALUATION OFFICE

and Interactive Data Corp (IDC).



Don Siegelman  
GOVERNOR

**STATE OF ALABAMA  
DEPARTMENT OF INSURANCE**

201 Monroe Street, Suite 1700  
Post Office Box 303351  
Montgomery, Alabama 36130-3351  
Telephone: (334) 269-3550  
Facsimile: (334) 241-4192  
Internet: [www.aldoi.org](http://www.aldoi.org)

June 28, 2002

Ms. Elizabeth Warren  
Investment Manager  
Alabama Reassurance Co.  
P.O. Box 20152  
Tuscaloosa, AL 35402-0152

**Re: 2001 Annual Statement review**

Dear Ms. Warren:

I have reviewed the Annual Statement and related documentation for the prior year ending 12/31/01 and have the following for your review:

- 1) As noted in previous correspondence, namely the Third Quarter Review letter dated 1/9/02, your Company has held cash in excess of the amount allowed under §27-41-6(c) (Code of Alabama, 1975, as amended). The statute permits an amount up to the greater of 10% of admitted assets or the total of capital and surplus to be maintained in single type of investment. Additional relief is available via §27-41-35 (Code of Alabama, 1975, as amended) also known as the "basket clause." However the latter statute only provides an additional 10% to augment the prior law, therefore maximum flexibility comes from the total of capital and surplus.

Your letter dated January 23, 2002 in response stated no single bank held an amount that would facilitate the violation of Alabama Investment Law, but it is the Department's assertion that the type of investment is the subject of the statutes, not a given depository. Therefore, we are requiring compliance with §27-41-6 and §27-41-35 (Code of Alabama, 1975, as amended) by either reducing cash to a level below capital and surplus or increasing capital and surplus to exceed cash.

- 2) General Interrogatory # 13 was answered as if the Company did not follow the instructions as required in filling out the Annual blank. In accordance with §27-3-26 (Code of Alabama, 1975, as amended) please amend said interrogatory and submit a replacement page 23 to the Department and NAIC or state which instructions were disregarded in the assembly of the 2001 Annual Statement.

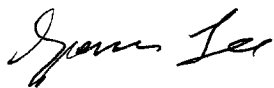
D. David Parsons  
Commissioner  
Assistant Commissioner  
Trey Granger  
Deputy Commissioner  
James R. (Johnny) Johnson  
Chief Examiner  
Richard L. Ford  
State Fire Marshal  
John S. Robison  
General Counsel  
Michael A. Bownes  
Receiver  
Denise B. Azar  
Licensing Manager  
Jimmy W. Gunn  
Financial Analysts  
Jill Ellis  
Sean Duke  
Spencer Lee  
Sheila Travis  
Robert Sharp  
Ken Smithson  
Glenda Daniel  
LaShonda Moultrie

Ms. Warren  
6/28/02  
page 2

- ✓ 3) Page 4 of the Annual Statement indicated a write-in figure entitled "Other income" in the amount of \$84.1M. Please elaborate on this item.
- ✓ 4) A review of pages 3 and 4 indicated a sharp increase in aggregate reserves (\$144.4M to \$214.2M) while premiums fell 57% (\$100.6M to \$43.7M). Please explain this movement to shore up reserves while premiums fell.
- 5) The Exam Report from 1996 reflected a need for the Company to secure Fidelity Bond coverage in accordance with NAIC regulations. Has the Company acquired said cover? If so, please indicate the amount of coverage purchased.
- 6) A review of the Exam Jumpstart reports for the Company revealed several discrepancies (see attached sheets). Pursuant to §27-3-26 (Code of Alabama, 1975 as amended), please correct said discrepancies and amend the Schedule D sections where applicable to reflect corrected CUSIP's and designations. When corrections have been made please forward amended pages to the Department and NAIC.
- 7) A review of Schedule DM denoted the SVO as the only source of valuation for the securities listed in said Schedule. It should be noted that the SVO cannot be the sole source of valuing the bonds shown on this Schedule. An additional valuation source, namely an NRSRO, must be utilized as well.

In accordance with Reg. 118, a response is due within ten (10) working days. If you have any questions regarding the issues raised in this letter please contact me on my direct dial at (334) 241-4152 or via e-mail at [slee@insurance.state.al.us](mailto:slee@insurance.state.al.us). Thank you for your time and consideration.

Sincerely,



Spencer Lee  
Examiner II



**BOB RILEY**  
GOVERNOR

**STATE OF ALABAMA**  
**DEPARTMENT OF INSURANCE**  
201 MONROE STREET, SUITE 1700  
POST OFFICE BOX 303351  
MONTGOMERY, ALABAMA 36130-3351  
TELEPHONE: (334) 269-3550  
FACSIMILE: (334) 241-4192  
INTERNET: [www.aldoi.gov](http://www.aldoi.gov)

WALTER A. BELL  
COMMISSIONER  
ASSISTANT COMMISSIONER  
RAGAN INGRAM  
DEPUTY COMMISSIONERS  
D. DAVID PARSONS  
JAMES R. (JOHNNY) JOHNSON  
CHIEF EXAMINER  
RICHARD L. FORD  
STATE FIRE MARSHAL  
JOHN S. ROBISON  
GENERAL COUNSEL  
MICHAEL A. BOWNES  
RECEIVER  
DENISE B. AZAR  
LICENSING MANAGER  
JIMMY W. GUNN

**BEFORE THE INSURANCE COMMISSIONER  
OF THE  
STATE OF ALABAMA**

**IN THE MATTER OF:**

FINANCIAL CONDITION  
EXAMINATION OF ALABAMA  
REASSURANCE COMPANY  
AS OF DECEMBER 31, 2001

CASE NO. C-2003-90JD

**ORDER**

ON THE 30<sup>th</sup> day of April, 2003, the above entitled cause came on for consideration by the Insurance Commissioner, pursuant to Ala. Code section 27-2-24(1975). The Insurance Commissioner, having fully considered and revised the Examination Report together with any written submissions or written rebuttals and any relevant portions of the examiner's work papers, finds and states as follows, to wit:

**JURISDICTION**

1. That the Insurance Commissioner has jurisdiction of this cause, pursuant to the provisions of the Alabama Insurance Code.
2. That Alabama Reassurance Company, Inc. is a domestic insurer licensed in the State of Alabama.

**FINDINGS OF FACT**

1. That on or about February 10, 2003, the verified Financial Condition Examination Report of Alabama Reassurance Company, Inc. was filed with the Insurance Department.

2. That following receipt of the December 31, 2001 Examination Report, the Company was afforded a reasonable opportunity of not more than twenty (20) days to make a written submission or written rebuttal with respect to any matters contained in the Examination Report.
3. On or about February 27<sup>th</sup>, 2003, written objections were submitted by Alabama Reassurance to the Department in the twenty day period required by law.
4. A hearing was promptly scheduled to address the objections and said hearing was conducted on April 30<sup>th</sup>, 2003, at the offices of The Commissioner of Insurance.
5. During the hearing, the company presented their objections and concerns. Representatives of the company were allowed to question members of the Department's professional staff. The company's concerns were primarily two: That specific instances of non-compliance cited in the exam could be read to indicate a pattern and practice when in fact that may not be the case and the company requested guidance and clarification of certain issues contained in their objections to the report. The Department's Examiners explained their standard practice of citing each act of non-compliance. Guidance and clarification was provided to the company regarding their concerns and areas objection. The company agreed to comply with the recommendations of the Department contained in the Examination Report.

### **ORDER**

IT IS THEREFORE ORDERED by the Commissioner of Insurance as follows:

1. That the December 31, 2001 Financial Condition Examination Report of Alabama Reassurance Company, Inc. is hereby adopted. The written response of Alabama Reassurance Company, Inc. shall be attached.
2. That Alabama Reassurance Company, Inc. file an affidavit with the Alabama Department of Insurance stating that a copy of the adopted report and related orders were reviewed by the board of directors within thirty (30) days of the issuance of the adopted report.

3. Alabama Reassurance Company, Inc. file an affidavit with the Department of Insurance within thirty (30) days of the issuance of the adopted report that the company filed a copy of the adopted report and related orders with all licensing states and the NAIC. An affidavit form is attached.

4. That Alabama Reassurance Company, Inc. shall comply with the recommendations set forth in the Report of Examination, and that failure by Alabama Reassurance Company, Inc. to so comply may result in sanctions or administrative action; and further, that Alabama Reassurance Company, Inc. shall file with the Department of Insurance within thirty (30) days of the order a statement signed by an appropriate official of the company stating the corrective action taken to comply with the recommendations made in the Report of Examination.

DONE and ORDERED this the 27<sup>th</sup> day of May, 2003.



A handwritten signature in black ink, appearing to read "Walter A. Bell", written over a horizontal line.

Walter A. Bell  
Insurance Commissioner  
201 Monroe Street, Ste 1700  
Montgomery, Alabama 36130  
(334) 269-3550